

Cause No. 131-127
Division Oil, Gas and Mining Room 1010
10:00 AM – 1:00 PM
3/3/2010

The Division met with following Cause No. 131-127 petitioners and MOG/HOC staff.

Petitioners present: Robbin Murdock, Mac Murdock, Colin Murdock, Karnel Murdock, Shirley Murdock Reed, Mary Murdock Meyer, and Perry Murdock.

MOG/HOC staff present: Craig Phillips and Raschelle Richens.

Division staff present: Gil Hunt and Clinton Dworshak.

Meeting Summary:

Introduction:

Gil Hunt addressed several key issues associated with this Board matter; ownership, entitlement and pooling. Gil discussed the responsibilities of both the operator and mineral owners. The agenda order for the meeting; 1) petitioners may speak first, 2) MOG/HOC will follow, 3) open discussion and questions period if necessary, 4) Clint will discuss the Divisions position and issues regarding this matter and 4) negotiations as a group or split the parties if necessary.

Petitioners:

Mac and Robbin stated they contacted HOG in early October 2009. They are only asking for their fair entitlement. They have only seen gross well numbers and would like to see monthly statements. Also had questions regarding Tribal severance tax.

Shirley admitted she had not followed her mineral interest like she should have after listening to Gil's introduction. She sent a letter to MOG and received a return letter from MOG (Craig) stating the matter would be addressed in the next two weeks. No further contact until she called Craig on the phone. Shirley also discussed the 4-month lapse in production and has concerns the lease was broken.

Karnel and Colin stated had have never received royalty payments, want to settle, but would like the figures to calculate a fair settlement.

MOG/HOC:

Craig agreed folks were due monies. He hoped to come to a settlement (all parties agreed). Raschelle state MOG had just received updated information and passed out a packet for all parties.

Clint:

Discussed the land ownership complexity of the section.

Petitioners broke protocol by filing a petition with the board prior to contacting the Division. Discussed ownership and entitlement.

The leased mineral owners proved title ownership and are entitled to proceeds from the well because their leases are pooled into the CA.

The unleased mineral owners proved ownership but have no entitlement to proceeds from the well until their minerals are somehow pooled with the other mineral owners in the drilling unit.

All parties agreed as to ownership of the subject 40 acres.

All unleased petitioners have recently leased to MRL.

Discussed what will happen if the parties are unable to settle.

1. If the leased can't settle with MOG the division may recommend the board set a hearing date. In that case parties will incur additional costs. Leased owners must support their entitlement offer and show why prior offers are not acceptable. MOG will need to supply complete well records for all parties.

2. If the unleased are unable to settle with MOG the Division's report to the board will be they have no entitlement until their mineral interest has been pooled. The unleased will have to start a new RAA to force pool their mineral interest. The Board will determine royalty and nonconsent penalties.

A clarification discussion about pooling was necessary.

Offers:

Craig proposed the following offer - \$2,521.65 (after tax to all unleased) same offer he made to Stuart and Ronald. The leased with 1/6 royalty (Karnel, Shirley and Gary) were offered \$980.64 (after tax). The leased with 1/8 royalty (Gwendylon and Brenda) were offered \$735.48 (after tax).

The parties could not agree on this settlement.

The parties were separated.

Petitioners made the following counter offers: the unleased would accept 75% of \$6134.00 plus 6% interest (after tax), the leased feel their leases may have lapsed due to 4-month break in production and want a working interest settlement of \$3,000.00

The above offers were presented to MOG and not accepted. MOG proposed a final settlement offer by March 19, 2010 allowing all parties additional time to review the recently acquired monthly well statements.

The March 19th date was proposed to the petitioners. They hoped it was not a stall tactic. However, they will use the time to review the monthly statements to better understand the actual working interest costs. The petitioners left.

MOG was informed the petitioners would review the monthly well reports and contact Raschelle or the Division if they needed clarification.

This concluded the meeting.

Cause 131-127

Division's Introductory Statement at Investigation Meeting Held March 3, 2010

Seven unleased mineral owners filed requests to the Board to have the Division investigate nonpayment of proceeds under 40-6-9 of the oil and gas conservation statute. Subsequently two leased mineral owners (lessors) filed requests to join in the matter. Subsequent to that two leased owners from other tracts filed requests after the filing deadline for separate investigations.

Now to get started I would like to cover a little background information on mineral ownership, development and responsibilities. The rights to develop minerals are held by the mineral owner or transferred to the lessee of those minerals. In this case we are meeting about today, some of the private mineral interests have been leased and some not. Our Board has the authority to designate by order Spacing/drilling units, which establish owners rights to share in a well or wells drilled in a drilling/spacing unit. This particular area we are dealing with was spaced by the Board prior to the drilling of any well on 640 acres or equivalent.

Both mineral owners and an operator have some responsibilities to protect interests under the law. Operators have a due diligence to search records then lease, or make offers to join in the drilling of wells. Individual owners have the responsibility to establish title and record ownership, and approach operators if they know drilling/production operations are taking place in or near their property. Simple avoiding any responsibility to establish and record title, lease minerals, or join in a well voluntarily, leaves interests vulnerable and can lead to proceeds not paid. On the other hand operators need to make good efforts to find owners, lease or make offers to join.

The spacing by the Board establishes certain rights, however, the subsequent pooling of interests enforces those rights. Section 40-6-9 can be used to remedy the nonpayment of proceeds if a person is "Entitled" to payment. Interests can be pooled either voluntarily or forced through order of the Board. If interests have not been pooled they are not entitled to payment (*Bennion v. Graham*). Drilling units such as this one, which involve Indian interests can be pooled voluntarily using a Communitization Agreement (CA) or through a forced pooling request and order of the Board. All proceeds that cannot be dispersed to those entitled should be placed in an escrow account for later payment.

The Division can investigate claims of nonpayment informally/administratively or formally through assignment from the Board after a request as we are doing today under Cause 131-127. Those owners that are not entitled under the law would probably be better served by approaching the Division informally rather than through request to the Board. Owners should be wary of taking legal advice from those not qualified to give it.

The Division has been assigned by the Board to investigate and negotiate this matter, which is why we are here today. We will do our best to understand who is entitled to proceeds, and to facilitate negotiations to settle this claim as best we can. Following our investigation, the Division will report to the Board our findings and make our recommendations. The Board may set the matter for hearing within 30 days following, if they find it appropriate.

glh 3/3/10